

# Weekly Macro and Markets View

10 June 2024



## Highlights and View

**Narendra Modi, India's Prime Minister, secures a third term, but his party, the BJP, loses its majority in parliament**

This is expected to hinder the BJP's ability to effectively advance its agenda compared to the previous term, but it will not derail India's positive structural growth story.

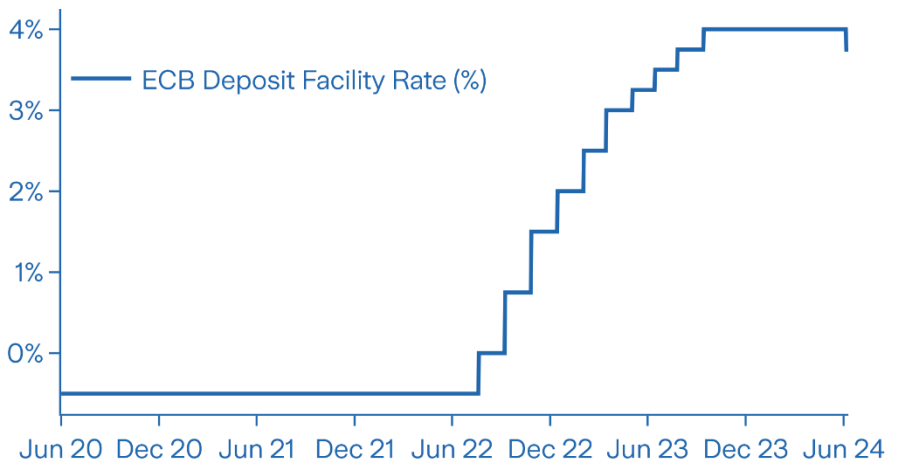
**The ECB cuts interest rates by 0.25%, taking the deposit facility rate to 3.75% in the first tentative step to looser policy**

The market debate will now focus on whether further cuts can and will be delivered. September is likely the next live meeting, and if conditions are right for a cut at that point then December should also follow.

**The US labour market is sending mixed signals**

While nonfarm payrolls grew at a solid pace, unemployment ticked up and the number of job openings fell substantially.

## The ECB cuts interest rates



Source: Bloomberg

Two major events took place in the European Union last week: the ECB's monetary policy meeting and elections to the EU parliament. The ECB cut rates by 0.25% across their three policy rates in a decision that was well-signalled by governing council members beforehand. While inflation remains above target, progress towards the 2% target has been undeniable. The ECB's logic that it is time to slightly reduce policy tightness is sound. However, recent data warrant concern, with both wage growth and inflation appearing slightly stickier than expected. Having long expected this June cut, we continue to see two further rate cuts this year in our base case. The debate from here is likely between no further cuts, or two further cuts, with high scrutiny on incoming data. September is likely the next live meeting, and if conditions allow for a cut at that time then the December meeting should also likely yield a cut. Results for the European Parliament elections look closely aligned to polls beforehand. While non-traditional right-wing parties have significantly increased their presence in parliament, it looks highly likely that a broad centrist coalition will maintain power. The most significant development is in France, where president Macron announced snap parliamentary elections in response to his party's lacklustre performance. This high-risk political gambit could plausibly lead to his loss of control of the National Assembly and is likely to lead to volatility in French assets.

## US

Mixed signals from the labour market

Manufacturing remains under pressure according to the latest ISM survey with new orders falling to the weakest level in a year. Meanwhile, service activity has recovered from its dip in April with the survey indicating moderate growth similar to the pace at the beginning of the year. Service employment remains in contraction, however. This softness still only shows up partially in broader labour market data. The number of job openings fell substantially in April to the lowest level since February 2021 while the unemployment rate ticked up to 4% for the

first time in almost two and a half years. At the same time, however, the number of new nonfarm payrolls grew at a strong pace in May and wage growth accelerated to 4.1% YoY from 4.0%. The mix of weaker and stronger economic data caused sizeable moves in the bond market with Treasury yields eventually ending the week slightly lower. The overall positive growth numbers in combination with lower yields helped to push the S&P 500 to a new record high, rising 1.3% over the week.

<p>Asia</p> <p>More signs of broad-based recovery</p>	<p>Almost all Asian countries have recorded Manufacturing PMIs above 50 for the first time in two years, indicating a synchronised recovery beyond key tech hubs like Taiwan and Korea, although China's NBS PMI remains an exception. India continues to lead with strong growth momentum. New export orders were particularly strong, except in China and Thailand. However, the PMI data also lead to concerns given increasing input costs across the board. China's exports in May exceeded expectations, driven by strong high-tech and</p>	<p>EV exports. The increase in US tariffs on Chinese EVs and new anti-subsidy tariffs by the EU may prompt exporters to front-run these tariffs in the coming months, potentially boosting exports before a subsequent decline. On the import side, there were declines in key metals and energy products, and the construction NBS PMI signalled a weaker trend in construction activity. Overall, recent data indicate a further broad-based recovery in manufacturing and trade, which is encouraging, but some pockets of weakness remain.</p>
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<p>Credit</p> <p>Lagging stocks as tightening fatigue sets in</p>	<p>Credit markets lagged the broader rally in stocks last week. However, there are notable divergences in the markets that are developing underneath the surface. As US economic surprises have been in negative territory, as measured by the Citigroup Surprise Index, growth sensitive stock indices such as Russell 2000 and KBW Bank Index have lagged the rally in technology stocks. This was also seen in corporate bond spreads that generally widened last week despite the broader risk-on tone. That said, there was some spread</p>	<p>compression within credit with the spread differential between BBB and A rated industrials the narrowest since 2007. This implies that the cost of leveraging up is rather low from a credit spread perspective. The primary market saw decent activity but demand appeared more lukewarm than previously. Flows were mixed with the US seeing decent inflows while Europe saw outflows. All in all, it appears that credit spreads are finding it hard to tighten notably and will continue to lag stocks.</p>
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<p>LatAm</p> <p>Economic Activity accelerates in Chile and Brazil; inflation slows in Mexico and Chile</p>	<p>In Brazil, Q1 GDP growth expanded by 0.8% QoQ, exceeding market expectations of 0.7%. Growth was fairly broad based, driven by both consumption and investment. In Chile, the IMACEC economic activity indicator showed a contraction of -0.3% in April, surpassing the market consensus of -0.6%. On a year-on-year basis, economic activity expanded by 3.5%, up from a revised 0.5% in March. The additional business days compared to 2023 contributed to the expansion of almost all sectors. Meanwhile, in Chile, CPI rose by 0.3% MoM in May,</p>	<p>aligning with expectations. Over the past 12 months, prices rose by 4.1%. Although the increases were widespread and driven by volatile components, we anticipate a deceleration in the coming months. In Mexico, May inflation declined by -0.2% MoM, resulting in an increase of 4.7% YoY, both broadly flat on the month. Non-core food and energy prices were likely the main drivers, with slower core inflation partially offsetting the advance.</p>
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<p>Mexico</p> <p>Claudia Sheinbaum is elected president in a categorical victory</p>	<p>Claudia Sheinbaum has made history as Mexico's first female president-elect. With a resilient economy driven by investment, consumption, and beneficial trade agreements, Sheinbaum assumes office with the support of nearly 60% of voters—a margin of almost 30 percentage points over her main opponent. Although the election result aligned with polls, her party, MORENA, will govern in 23 of the 32 states, and they hold a qualified majority in both chambers. This allows for potential constitutional reforms, which may create uncertainty in the</p>	<p>financial markets. Investors are now eagerly awaiting official announcements clarifying cabinet appointments and any potential constitutional changes. Throughout last week, the Mexican peso depreciated to USDMXN 18 while the stock market exhibited high volatility, declining but later recovering, albeit maintaining a downward trend. In the fixed income market, no significant movements were observed in government rates.</p>
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## What to Watch

- In the US, investors will focus on the latest batch of inflation numbers and the Fed's current stance on monetary policy.
- This week will see official results and MEP counts for the European Parliamentary elections. We will also receive Industrial Production figures for April for the Eurozone as a whole, a series that has been underwhelming so far this year.
- In Asia, the focus is on the Bank of Japan meeting, which will provide insights into the Bank's policy direction regarding future rate hikes and potential adjustments to JGB purchase programs. The central banks of Thailand and Taiwan are expected to maintain their rates. Key data to watch include China's CPI and credit data, as well as Australia's labour market data and India's CPI and Industrial Production.

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